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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

OMB APPROVAL

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Southwest Merchant Group, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3422 Binkley

(No. and Street)

Dallas

Texas

75205

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

CF & Co., L.L.P.

(Name - if individual, state last, first, middle name)

8750 N. Central Expressway, Suite 300

Dallas

TX

75231

(Address)

(City)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its posses



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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Steve Cook, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Southwest Merchant Group, Inc., as of December 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Francine Groves
Notary Public

Steve Cook

Signature

President

Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal control

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

SOUTHWEST MERCHANT GROUP, INC.

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED
DECEMBER 31, 2011

SOUTHWEST MERCHANT GROUP, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Stockholder
Southwest Merchant Group, Inc.

We have audited the accompanying statement of financial condition of Southwest Merchant Group, Inc. as of December 31, 2011, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Merchant Group, Inc. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in Schedules I and II required by Rule 17a-5 under the Securities Exchange Act of 1934 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.


CF & Co., L.L.P.

Dallas, Texas
February 21, 2012

Member:

CPAmerica International, in alliance with Crowe Horwath International
The International Accounting Group
World Services Group

SOUTHWEST MERCHANT GROUP, INC.
Statement of Financial Condition
December 31, 2011

ASSETS

Cash and cash equivalents	\$ 7,933
Deposits	<u>100</u>
	<u>\$ 8,033</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	<u>\$ -0-</u>
Stockholder's equity	
Common stock, 100,000 shares authorized with \$.01 par value, 1,000 shares issued and outstanding	10
Additional paid-in capital	45,752
Retained earnings (deficit)	<u>(37,729)</u>
Total stockholder's equity	<u>8,033</u>
	<u>\$ 8,033</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MERCHANT GROUP, INC.

Statement of Income

For the Year Ended December 31, 2011

Revenues

Fee income	\$ 23,763
Other revenue	11,569
Interest income	<u>14</u>
	<u>35,346</u>

Expenses

Regulatory fees and expenses	1,786
Occupancy and equipment costs	2,016
Other expenses	<u>37,781</u>
	<u>41,583</u>

Income (loss) before income taxes (6,237)

Provision for federal income taxes -0-

Net income (loss) \$ (6,237)

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MERCHANT GROUP, INC.
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2011

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Balances at December 31, 2010	\$ 10	\$ 39,752	\$ (31,492)	\$ 8,270
Capital contribution		6,000		6,000
Net income (loss)	_____	_____	(6,237)	(6,237)
Balances at December 31, 2011	<u>\$ 10</u>	<u>\$ 45,752</u>	<u>\$ (37,729)</u>	<u>\$ 8,033</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MERCHANT GROUP, INC.
Statement of Changes in Liabilities Subordinated
to Claims of General Creditors
For the Year Ended December 31, 2011

Balance, at December 31, 2010	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance, at December 31, 2011	<u>\$ -0-</u>

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MERCHANT GROUP, INC.
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash flows from operating activities

Net income (loss) \$ (6,237)

Net cash provided (used) by operating activities (6,237)

Cash flows from investing activities

Net cash provided (used) by investing activities -0-

Cash flows from financing activities

Capital contribution 6,000

Net cash provided (used) by financing activities 6,000

Net decrease in cash and cash equivalents (237)

Cash and cash equivalents at beginning of year 8,170

Cash and cash equivalents at end of year \$ 7,933

Supplemental schedule of cash flow information

Cash paid during the year for:

Interest \$ -0-

Income taxes \$ -0-

The accompanying notes are an integral part of these financial statements.

SOUTHWEST MERCHANT GROUP, INC.
Notes to Financial Statements
December 31, 2011

Note 1 - Summary of Significant Accounting Policies

Southwest Merchant Group, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission under ("SEC") Rule 15c3-3(k)(2)(i). The Company is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company's revenues are earned primarily from investment banking services and consulting. The Company's business is conducted with customers located throughout Texas.

Fee income includes income earned for services provided related to investment banking and consulting. Revenue from investment banking and consulting is recognized when services are provided.

Other revenue consists of reimbursement of certain expenses.

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

For purposes of reporting cash flows, the Company has defined cash equivalents as highly liquid investments with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due. The provision for federal income taxes differs from the expected amount using statutory rates because certain expenses included in the determination of net income are non-deductible for tax reporting purposes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income, subject to a valuation allowance.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

SOUTHWEST MERCHANT GROUP, INC.

Notes to Financial Statements

December 31, 2011

Note 2 - Net Capital Requirements, continued

At December 31, 2011, the Company had net capital of approximately \$7,923 and net capital requirements of \$5,000. The Company's ratio of aggregate indebtedness to net capital was 0 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company holds no customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(i).

Note 4 - Income Taxes

The Company has a net operating loss carryforward of approximately \$37,512 available to offset future taxable income and expires as follows:

Year Ended <u>December 31,</u>	
2018	\$ 4,356
2019	427
2021	1,072
2023	232
2024	110
2025	4,920
2026	5,611
2028	5,068
2029	9,478
2031	<u>6,238</u>
	<u>\$ 37,512</u>

The tax benefit of \$5,630 from the net operating loss carryforward of \$37,512 has not been reported in these financial statements because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the tax benefit has been offset by a valuation allowance of the same amount. The following reflects the changes in the tax benefit:

	Deferred Tax Asset December 31, 2010	Current Period Changes	Deferred Tax Asset December 31, 2011
Federal	\$ 4,695	\$ 935	\$ 5,630
Valuation allowance	<u>(4,695)</u>	<u>(935)</u>	<u>(5,630)</u>
Amount per balance sheet	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

SOUTHWEST MERCHANT GROUP, INC.
Notes to Financial Statements
December 31, 2011

Note 4 - Income Taxes, continued

Any potential interest and penalty associated with a tax contingency, should one arise, would be included as a component of income tax expense in the period in which the assessment arises.

Income tax returns are generally subject to examination by the respective federal and state authorities over various statutes of limitations generally three to five years from date of filing.

Note 5 - Related Party Transactions

The Company and various entities are under common control and the existence of that control creates operating results and financial position significantly different than if the companies were autonomous.

Substantially all the Company's revenue is from related parties. For the year ended December 31, 2011, the Company received \$23,762 in fee income and \$11,569 in other revenue from related parties. Also, the Company paid \$31,225 in consulting expenses to a related party, this amount is included in other expenses.

Note 6 - Liquidity

The Company has sustained substantial operating losses since inception. Continued operating losses could directly impact the Company's regulatory capital. It is management's intention to control costs and increase revenue. It is management's understanding that it will continue to receive capital infusions as necessary.

Supplementary Information
Pursuant to Rule 17a-5 of the
Securities Exchange Act of 1934
As of December 31, 2011

Schedule I

SOUTHWEST MERCHANT GROUP, INC.
Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
As of December 31, 2011

COMPUTATION OF NET CAPITAL

Total stockholder's qualified for net capital	\$ 8,033
Add:	
Other deductions or allowable credits:	<u>-0-</u>
Total capital and allowable subordinated liabilities	8,033
Deductions and/or charges	
Non-allowable assets:	
Deposits	<u>(100)</u>
Net capital before haircuts on securities positions	7,933
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f))	<u>(10)</u>
Net capital	<u>\$ 7,923</u>

AGGREGATE INDEBTEDNESS

Items included in the statement of financial condition

Accounts payable	\$ <u>-0-</u>
Total aggregate indebtedness	<u>\$ <u>-0-</u></u>

Schedule I (continued)

SOUTHWEST MERCHANT GROUP, INC.
Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
As of December 31, 2011

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 0</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 5,000</u>
Net capital above the of required minimum	<u>\$ 2,923</u>
Excess net capital at 1000%	<u>\$ 7,923</u>
Ratio: Aggregate indebtedness to net capital	<u>0 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

The difference in the computation of net capital under Rule 15c3-1 from the Company's computation is as follows:

Net capital per the Company's unaudited FOCUS IIA	\$ 8,043
Difference:	
Increase in non-allowable asset	(100)
Increase in haircuts	(10)
Miscellaneous difference	<u>(10)</u>
Net capital per audited report	<u>\$ 7,923</u>

Schedule II

SOUTHWEST MERCHANT GROUP, INC.
Computation for Determination of Reserve Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission
As of December 31, 2011

EXEMPTIVE PROVISIONS

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(i).

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

For the Year Ended
December 31, 2011

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5

To the Stockholder of
Southwest Merchant Group, Inc.

In planning and performing our audit of the financial statements of Southwest Merchant Group, Inc. (the "Company"), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial

statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, there can be no assurance that all material weaknesses have been identified. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

CF & Co., L.L.P.

CF & Co., L.L.P.

Dallas, Texas
February 21, 2012